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BY MARTEN & CO

INVESTOR

May 2021

Monthly roundup | Real estate

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Winners and losers in April

Best performing funds in price terms

	(%)
Globalworth Real Estate	22.7
Standard Life Inv. Property Income	19.3
Sirius Real Estate	14.4
Hammerson	13.9
Tritax EuroBox	13.6
BMO Commercial Property Trust	12.6
UK Commercial Property REIT	11.5
Schroder REIT	11.4
Custodian REIT	11.3
AEW UK REIT	11.1

Source: Bloomberg, Marten & Co

Worst performing funds in price terms

	(%)
Raven Property Group	(5.4)
Circle Property	(3.9)
Town Centre Securities	(3.3)
Shaftesbury	(2.0)
Impact Healthcare REIT	(1.5)
Sigma Capital Group	(1.0)
Home REIT	(0.9)
Macau Property Opportunities	(0.4)
RDI REIT	(0.3)
Grit Real Estate	0.0

Source: Bloomberg, Marten & Co

Diversified property companies were the winners in April as progress in the UK's vaccination programme and roadmap out of lockdown continued unabated. Six of the top 10 best performing companies in price terms were generalist REITs that had been trading on wide discounts. Top of the pile, however, was Globalworth Real Estate. The Central and Eastern European office landlord was the subject of a takeover offer by two of its largest shareholders in April. Standard Life Investments Property Income Trust headed the list of generalist property companies with a 19.3% share price rise. Strong rent collection rates, a growing dividend and portfolio valuation rises characterise most of the property generalists as they move on from the depths of the pandemic. Shopping centre owner Hammerson had another good month, announcing the sale of a retail park portfolio for £330m, and has now seen its share price recover 72% in the past three months. Tritax EuroBox deployed the proceeds of its €230m equity raise last month with the acquisition of two German assets.

There was only a handful of property companies to see their share price fall in April, with Russian logistics landlord Raven Property Group heading the list. Both Circle Property, the small-cap real estate company, and Town Centre Securities saw their share price fall off slightly in April following double-digit gains in March. Both are still up in the year to date – 6.8% and 15.9% respectively. West End of London landlord Shaftesbury also suffered a slight drop in its share price in April, although the group is up 10.5% in the year-to-date as it gears up for a reopening of retail and leisure assets. Care home owner Impact Healthcare REIT saw its share price fall 1.5% following a £35m capital raise at a discount to its 1 April share price. The share price of specialist homeless accommodation owner Home REIT fell slightly despite reporting positive maiden interim results for the period from launch to the end of February in which NAV rose 4.9%. RDI REIT, meanwhile, has since de-listed from the stock market following the buyout by existing shareholder Starwood.

Valuation moves

Company	Sector	NAV move (%)	Period	Comments
Aberdeen Standard European Logistics Income	Europe	8.1	Full year to 31 Dec 20	Value of portfolio up 22.0% to €425.2m due to acquisitions and yield compression
Home REIT	Residential	4.9	Half-year to 28 Feb 21	Property portfolio valuation up 4.3% on acquisition price to £243m
AEW UK REIT	Diversified	3.4	Quarter to 31 Mar 21	Portfolio grew in value by 4.0% to £179.0m
BMO Commercial Property Trust	Diversified	1.7	Quarter to 31 Mar 21	Value of portfolio increased 1.1% to £1.24bn
BMO Real Estate Investments	Diversified	1.0	Quarter to 31 Mar 21	Portfolio value increased 0.8% to £318.8m
Target Healthcare REIT	Healthcare	0.8	Quarter to 31 Mar 21	Like-for-like portfolio valuation uplift of 1.0% to £650.8m
UK Commercial Property REIT	Diversified	(3.4)	Full year to 31 Dec 20	Value of portfolio fell 12.9% to £1.18bn
Standard Life Inv. Property Income Trust	Diversified	(8.8)	Full year to 31 Dec 20	Portfolio valuation down 11.2% to £437.7m

Source: Marten & Co

Corporate activity in April

Globalworth Real Estate was the subject of a takeover bid by largest shareholders CPI Property Group and Aroundtown, valuing the company at just over €1.5bn. The board said it undervalued the company and holders of 39.8% of its shares – Growthpoint Properties, The European Bank for Reconstruction and Development and Oak Hill Advisors – rejected the offer. These holders represent 82.0% of the Globalworth shareholders to whom the offer would be made.

Shareholders of RDI REIT approved the £467.9m cash offer for the company from its largest shareholder Starwood Capital. Starwood made a cash offer for the 70% of shares it doesn't own at 121.35p, representing a discount of 19.9% to the group's most recent EPRA NAV but a 38.2% premium to its six-month average share price.

Impact Healthcare REIT raised £35m through a placing of new shares, below its £50m target. The issue price was 111.5p – a 2.5% discount to its closing price on 1 April 2021 and a 1.8% premium to its most recently reported NAV of 31 December 2020. The proceeds will be used to repay debt and fund new acquisitions.

Yew Grove REIT raised €12.7m with the issue of 13,350,000 new shares at 95 cents per share. It has an acquisition pipeline of approximately €72m, comprising seven properties with short-term reversionary yields of between 7.51% – 9.20%.

CLS completed a £61.7m, 12-year loan with Scottish Widows, secured on a portfolio of five UK office properties. The loan has a fixed 2.65% interest rate and replaces two existing loans of £27.4m, which were due to expire before the end of 2021, as well as financing three recent unencumbered acquisitions. Overall, the transaction results in net additional cash to CLS of £33.7m, after costs. The loan incorporates a 10-basis point margin reduction dependent on the delivery of specific sustainability targets.

April's major news stories – from our website

- **AEW UK REIT wins legal battle over unpaid rent**

AEW UK REIT won a High Court battle against two of its "well-funded" national tenants – Sports Direct and Mecca Bingo – to recover rent that they had refused to pay during the pandemic.

- **Phoenix Spree Deutschland boosted by rent freeze ruling**

The German Federal Court ruled against the legality of the Mietendeckel rent freeze in Berlin. Phoenix Spree Deutschland had previously estimated a 20% hit on annual rents in 2021, but it is now expected that this will be reversed.

- **NewRiver REIT mulls listing pubs business**

NewRiver REIT is considering an initial public offering (IPO) of its pubs business Hawthorn, as part of a wider strategic overhaul. The group said one of its priorities was to divest the community pub business and focus on "resilient retail".

- **British Land moves into logistics development**

British Land announced plans for 1m sq ft of urban logistics development at two of its retail sites. It is the first foray into the burgeoning logistics sector for the REIT, which has traditionally had a portfolio focused on offices and retail.

- **British Land pre-lets 134,000 sq ft at Broadgate office campus**

British Land pre-let 134,000 sq ft of office space at its 1 Broadgate development in the City of London with real estate consultancy firm JLL on a 15-year term.

- **Hammerson sells £330m retail portfolio**

Hammerson sold seven retail park assets to Brookfield for £330m, representing an 8% discount to the December 2020 book value. Disposals in 2021 now total £403m as the group looks to reduce debt.

- **Tritax EuroBox in €290m German double buy**

Tritax EuroBox acquired two assets in Germany - a 70,000 sqm logistics facility let to a leading German sportswear manufacturer and a 94,800 sqm property let to Wayfair - for €290.9m.

- **Tritax Big Box REIT toasts £90m acquisition**

Tritax Big Box REIT acquired the largest wine production warehouse in Europe in a £90m deal. The 872,000 sq ft facility in Avonmouth, in the South West of England, is let to Accolade Wines and was acquired at a net initial yield of 5.1%.

- **Supermarket Income REIT splashes £63m on Tesco store**

Supermarket Income REIT bought a Tesco supermarket in Colchester, Essex for £63m, representing a yield of 4.5%.

- **LondonMetric disposes of £38.5m non-core assets**

LondonMetric sold five non-core assets – three retail assets and two offices – for £38.5m.

QuotedData views

- **Rent Wild West needs a solution? – 30 April 2021**
- **Rent judgment good news for REITs – 23 April 2021**
- **British Land's bold move too late? – 16 April 2021**
- **Shackles to come off in battle for unpaid rent – 9 April 2021**

Visit www.QuotedData.com for more on these and other stories plus analysis, comparison tools and basic information, key documents and regulatory announcements on every real estate company quoted in London

Managers' views

A collation of recent insights on real estate sectors taken from the comments made by chairmen and investment managers of real estate companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Diversified

Standard Life Investments Property Income Trust

Jason Baggaley, investment manager:

2021 is expected to be a year of two halves. The national lockdown and restrictions on travel along with the impact of the final Brexit deal will have a negative impact on the economy and real estate market in the first half of the year. However, the second half is expected to be significantly different as the economy reopens with strong growth albeit from a low base. The economic shocks from COVID-19, as well as the aftereffects of Brexit are going to create a challenging macroeconomic environment and after the strong bounce back, we are likely to be in a new period of low growth and low interest rates.

The low interest rate environment is likely to support continued demand for real estate as an income producing real asset. The weight of money available to invest in real estate is going to be supportive of values, however we expect a strong differential in performance both across sectors, and within sectors.

The theme of industrial performing well and retail poorly is expected to continue but become more nuanced. Shopping centres and fashion-led retail is likely to continue to see falling capital and rental values, whilst food and budget retail should hold up well. Logistics remains a strong sub-sector with continued demand pushing rents and values up, but we suggest greater caution is required around smaller multi-let units generally rented to poorer covenants more likely to struggle in a weaker economic environment. The office market is in a period of change and is likely to see rental value falls and reduced demand: however, it is a sector that is likely also to see the best properties do better and the weaker ones worse as users and buyers become more selective.

Income will be the main driver of returns over the next few years. Long let secure income is trading at ever lower yields, and those seeking a greater yield are going to have to take an active approach of investing in assets with shorter leases but more sustainable income through diversification and good quality assets that meet occupier needs.

BMO Real Estate Investments

Peter Lowe, fund manager:

The property market was buoyed by encouraging news on the vaccine rollout and a timetable to the reopening of parts of the economy that have remained closed for much of the pandemic. Performance was largely driven by a strong showing from the industrial and distribution sector where occupational fundamentals remain attractive and investment demand has driven sharp yield compression. There was some improved stability in retail markets, particularly retail warehousing, although shopping centres and high street yields continued to soften. Sentiment has improved over the period, however investors outside of the industrial and foodstore markets remain cautious and transaction levels are subdued by historic standards.

UK Commercial Property REIT

Ken McCullagh, chairman:

As the vaccine rollout continues, and in the expectation restrictions are gradually eased, then the key question is how fast and to what extent the economy can rebound from the seismic impact of the pandemic which resulted in a 9.9% fall in UK GDP in 2020. Another factor that may impact the strength of the economy is the Brexit trade deal between the UK and Europe and whether this will result in significant disruption between the two trading blocs. Our investment manager is forecasting 6.2% GDP growth in 2021, on the basis there are no further setbacks.

It remains to be seen whether valuations of UK commercial real estate, which were already under pressure pre COVID-19, will recover to the same extent as the wider UK economy with valuation movements and hence total returns likely to be polarised between the sectors and within sectors. COVID-19 accelerated the structural retail trend away from the high street and shopping centres to online retail and while this trend may flatten out, or indeed partially recede, as people are allowed back to the shops, it is unlikely to completely reverse. There is much speculation over the future of the office sector as businesses adjust to hybrid working practices. However, there is no doubt that some offices will act more as collaboration hubs, reducing the requirement for office space, and that there will be an even more distinct polarisation between well located prime modern offices that fulfil the modern occupiers' exacting requirements and older, more secondary stock which will fall out of favour. Leisure should recover to an extent but this will be very much linked to the easing of lockdown and the public being both able and confident enough to visit places like cinemas and restaurants.

BMO Commercial Property Trust

Richard Kirby and Matthew Howard, fund managers:

As the vaccination rollout becomes more widespread and restrictions are finally eased or lifted, we will see greater certainty returning to the market, lifting confidence and valuations alike. Brexit has been somewhat overshadowed by the pandemic but, now triggered, it is causing some disruption which may be more than frictional. As an asset class, real estate will continue to be supported by a low interest rates environment, providing it with a yield advantage over most other domestic and overseas asset classes.

While the adjustment in retail may have further to go, it is important to distinguish between pandemic-related change and permanent structural change. The company's portfolio of retail assets is of high quality, with significant potential for further development as we re-position them to grocery and convenience led retail propositions. The office sector outlook is heavily dependent on the balance struck between home-working and the need for office-based collaborative working and social interaction. The way offices are used will change to a more agile model and to have more collaborative space. There has been much commentary over future demand for offices, but we are now seeing many companies restating the future need of offices to support the wellbeing of staff. The polarisation seen between prime and secondary office stock is likely to become more pronounced. The need for flexibility either in the lease structure, whether manifested as shorter lease lengths or turnover rents, or indeed as re-purposing, is expected to persist. Most importantly, is to acknowledge the variation in performance at the asset as well as sector level. Stock selection and a forensic attention to detail in asset management will be key to delivering performance.

Europe

Aberdeen Standard European Logistics Income

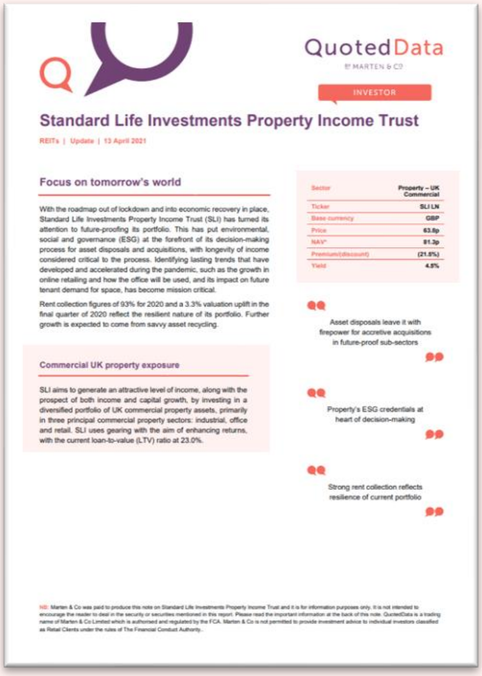
Tony Roper, chairman:

The level of activity seen in the logistics market in 2020 provided the latest endorsement of our strategy when launched in 2017. 2020 was a record year of occupier demand; according to Savills, European logistics take-up reached 26 million sqm during 2020, up 12% on the level observed during 2019 and 19% above the five-year average.

Logistics remains one of the most favoured real estate sectors for investors. The logistics industry has been a standout performer benefitting from the unprecedented disruption caused by systemic changes to the way global economies function. Logistics assets have benefited from additional occupier demand arising from necessary supply chain restructuring and the rapid increase in demand for home deliveries.

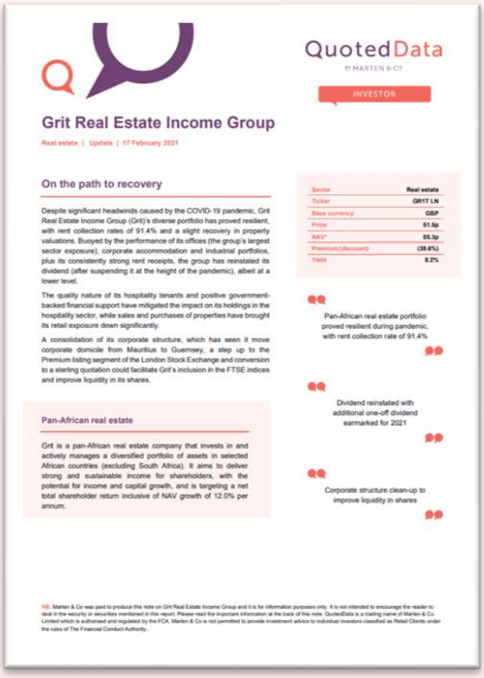
Clients demand frequency and increasing complexity whilst the nature of e-commerce, where Europe lagged the UK, has required operators to adapt faster to future shifts in consumption, particularly so since the start of the pandemic. E-commerce and the move to online shopping and delivery continues unabated. As Europe's economy starts to open up once again and the mass vaccination programmes allow for a return to some sort of 'normal', I am confident the fundamentals underpinning investment in logistics real estate should continue to drive further rental and capital growth which will translate into attractive returns for shareholders.

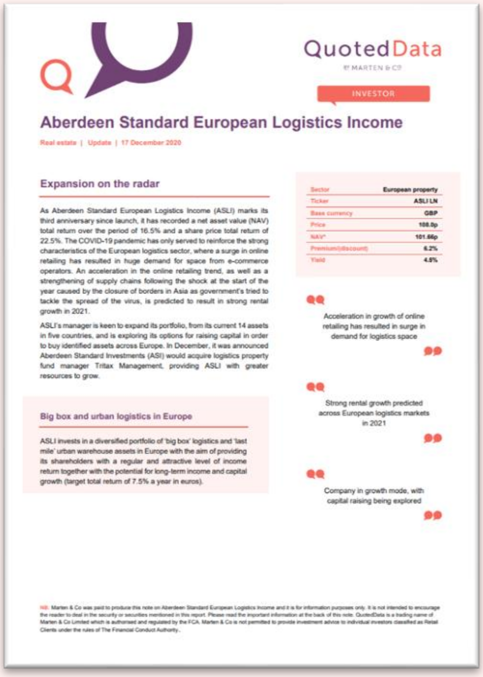
Real estate research notes



An update note on Standard Life Investments Property Income Trust (SLI). The group is future-proofing its portfolio fit for a post-pandemic world and has put ESG at the heart of its decision-making process.

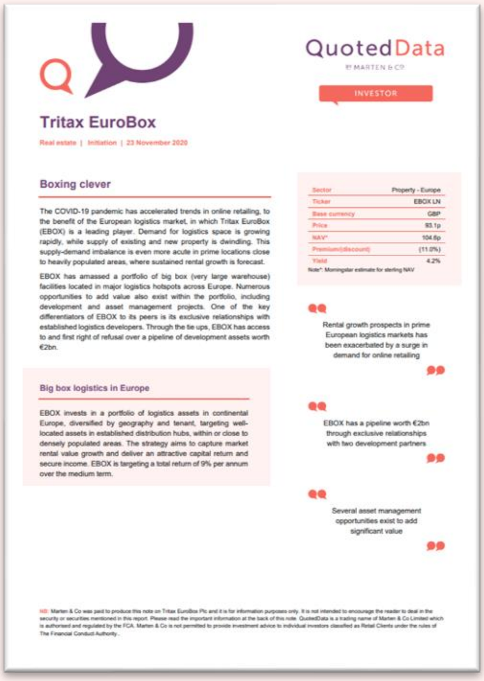
An update note on Grit Real Estate (GR1T). The pan-African real estate investor's diverse portfolio has proved resilient during COVID-19, highlighted in a rent collection rate of 91.4%. It has consolidated its corporate structure that could facilitate its inclusion in the FTSE indices and improve liquidity in its shares.





An initiation note on Tritax EuroBox (EBOX). The company's European big box logistics portfolio has performed well during the COVID-19 pandemic as a surge in online retailing has resulted in an uptick in demand for logistics space. Its exclusive relationships with developers give it plenty of room to grow.

An annual overview note on Aberdeen Standard European Logistics Income (ASLI). The group's manager is exploring growth avenues to take advantage of strong fundamentals in the European logistics sector.



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